The great bulk of loans made under the National Housing Act contemplate the lending of three-quarters of the loan by the lending institution and one-quarter of the loan by the Government through its agency, Central Mortgage. The effect of this operation and, indeed, the purpose of it is twofold. Firstly, the participation by Central Mortgage increases the ratio of loan from 60 per cent of the lending value of the house, as considered prudent by lending institutions, to 80 per cent. The second point is that the participation of Central Mortgage, with Government money at Government borrowing rates, reduces the interest rate on loans under the National Housing Act by about one-half of one per cent. The present rate of $5\frac{1}{4}$ per cent would be 5 3/4 per cent were it not for the fact that Central Mortgage provides one-quarter of the money at 3 3/4 per cent.

The Act also provides that interest rates payable by borrowers under the National Housing Act shall fluctuate in accordance with the interest rate on Government securities; that is, the interest rate at which the Government can borrow. In the year preceding September 1[illegible], 1952, the interest rate on Dominion of Canada bonds, the prime security in the country, increased by approximately one-half of 1 per cent. The Government, however, did not go to the full extent of the increase in the basic rate, but rather increased the rate on loans under the National Housing Act by half that amount, namely, one quarter of 1 per cent. This extra one-quarter of 1 per cent costs the average home-owner about fourteen cents per thousand dollars of loan per month. If the average loan is $7,500, the net difference as far as the home-owner is concerned is approximately one dollar a month on his monthly payments.

Undoubtedly a case can be made that it would be easier for a home-owner to buy a house if the interest rate were one-quarter of 1 per cent less; but that is not the real point. With the increasing of the general interest-rate structure, loans under the National Housing Act were becoming less attractive to the lending institutions. They were finding that there were other and more attractive avenues of investment. I don't have to remind you that although, from the home-owner's point of view 5 per cent money is better than $5\frac{1}{4}$ per cent money, it is equally true that $5\frac{1}{4}$ per cent money is better than no money at all at 5 per cent. And that was the position we were rapidly reaching. In fact, this condition did exist in June, 1951, and was corrected by action of Parliament which by a change in the Act authorized the Government to adjust National Housing Act loans so that too low an interest rate would not dry up the supply of funds.

Increased Loan - Reduced Down Payment

You will recall that in October 1951 we took steps jointly with the lending institutions to increase the amount of loan to 80 per cent of the agreed sales-price of the house. Prior to that, the loan was related to lending values which remained relatively stable while building costs increased. Accordingly the amount of the down payments had risen considerably. In conventional mortgage practise, lending institutions consider a 60 per cent loan to be normal. To induce them to participate in loans up to 80 per cent of lending value, it was necessary to extend Government guarantees to their share of joint loans when the Act was formulated in 1944. It now became necessary to extend these guarantees to obtain